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Executive Director

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April 7, 2006

Mr. Denny Heck, Chair
Higher Education Advisory Committee
Washington Learns
2921 Cloverfield Drive SE
Olympia, Washington 98501

Re: Washington Learns – Tuition Setting Authority for UW & WSU

Dear Denny:

As Executive Director of the HECB, I serve as chair of the Committee on Advanced Tuition Payment that oversees the state's Guaranteed Education Tuition (GET) Program. GET is Washington's prepaid tuition program authorized under section 529 of the Internal Revenue Code. GET was established by the 1997 Washington Legislature to help make higher education affordable and accessible to all citizens of the state of Washington by offering a savings incentive that protects purchasers and beneficiaries against rising tuition costs.

The GET Program has just completed another successful enrollment year, with over 11,000 new accounts opened for students statewide. To date, more than 66,000 GET accounts have been opened. Those accounts are valued at over $700 million, making GET the fastest growing prepaid tuition plan in the country for two consecutive years. The program has attracted families from every county in the state.

The state of Washington guarantees that GET tuition units will cover the cost of equivalent tuition in the years that they are used. The payout value of each unit equals one percent of the resident undergraduate tuition plus state mandated fees at the most expensive Washington public university at the time of use. Washington's two research universities, UW & WSU, historically have the highest tuition; therefore the GET payout for each unit is one percent of the highest tuition charged by those institutions. Since 2000, when students first began using GET benefits, the program has paid out over $31.6 million to 4,403 students using GET units to attend college.

The HECB is charged with representing the broad public interests in higher education and is dedicated to helping students succeed. To this end, the HECB prepares a Strategic Master Plan for Higher Education every four years. One of the key elements of the HECB Plan is keeping college tuition affordable and predictable. I am therefore concerned about one of the tuition policy proposals that are being discussed in regards to allowing both UW and WSU to set their own resident undergraduate tuition.

Currently, 38 percent of students using GET benefits are attending either UW or WSU. However, these aren't the only students that would be impacted by an increase in tuition at these institutions. Since the GET payout value is based on the highest public tuition rate each year, every GET account holder is impacted by the rates charged at these two universities.

In 2001, when the Legislature authorized a one-time tuition increase of up to 16 percent, GET's actuarial reserves were completely erased overnight. It took GET over three years to eliminate the resulting ($21.6 million) actuarial deficit. There were less than 24,000 accounts at that time. Today, with over 66,000 GET accounts, a tuition increase of this magnitude would likely necessitate an infusion from the General Fund to keep the program solvent. Projections from 2001 showed a long-term loss of almost $60 million. Today, the impact could easily result in a long-term liability closer to $150 million.

Some states have allowed colleges and universities to set their own tuition rates: Ohio, Texas, and Virginia are three examples. In all three cases, the institutions dramatically increased tuition. As a result, state Legislatures began working on ways to regain control, or to reinstate statutory limits. All three states listed above have prepaid tuition plans. In all three cases, their plans stopped selling to new participants and developed large actuarial deficits that they are still trying to overcome. The Ohio and Texas programs are still closed to new participants, and as of June 30, 2005, had respective deficits of $242 million and $108 million. Virginia, which only recently reopened its prepaid plan to new participants, had a $60 million deficit as of August 31, 2005. Long-term projected liabilities resulting from these deficits are in the hundreds of millions of dollars.

Predictable tuition increases are essential for a prepaid program to accurately forecast future liabilities. They are also important to families who are trying to determine how much to save and where to invest their money. Without predictability, GET would not be able to accurately price its tuition units, and would have to restructure its operations or close its doors to new participants. In either case, the state of Washington would still be liable for those units already purchased by participants. With institutions setting their own rates, that liability would continue to escalate year after year.

It is difficult to imagine the long-term damage to the GET Program resulting from this type of restructuring. Parents across the state are familiar with the GET Program as a state-run entity. With more than 66,000 accounts opened for family members to attend college, one can only imagine the reaction of these participants. While a restructured GET would be an option, the loss of confidence in the state and its ability to keep tuition affordable and to keep GET intact might be too much to overcome.

While it is not our intent to tie tuition in the state to the GET Program, I feel it is important for you to be aware of some of the ramifications of turning over tuition-setting authority to UW and WSU. I look forward to continuing our dialogue and trust that by working together we can find better tuition alternatives for the citizens of our state.

Sincerely,

James E. Sulton, Jr., Ph.D.
Executive Director

cc: GET committee
Betty Lochner, Director, GET